



MEMORANDUM

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Agenda Item No. 7(A)

TO: Honorable Chairperson Barbara Carey-Shuler, Ed. D.
and Members, Board of County Commissioners

DATE: October 12, 2004

FROM: George N. Burgess
County Manager

SUBJECT: Deferred Compensation
457 Program

A Deferred Compensation program is a valuable benefit and an important tool in attracting and retaining employees. It allows employees to set aside a designated amount of money in a tax deferred account, in accordance with IRS regulations. Miami-Dade County currently offers employees the option of participating in a 457 Deferred Compensation Plan through either the International City Management Association Retirement Corporation (ICMA-RC) or Nationwide Retirement Solutions (NRS). ICMA-RC was adopted by the Board on December 7, 1976 and NRS (formerly NACO) was adopted by the Board on February 2, 1981. There are approximately 14,000 active participants in the two programs, and over 1000 former employees are receiving payouts under the programs. The current value of the assets invested in these plans is approximately \$691 million. Our program is voluntary and involves no County funding.

In April, 2003, the previous administration had presented a request for proposals (RFP) seeking 457 programs (Deferred Compensation) to the Government Operations Committee. The item was forwarded to the Board of County Commissioners without recommendation. At the time, the Manager's Office deemed that an RFP was necessary for acquiring providers because the program has never been competitively bid and the County does not have formal contracts with the existing providers. However, the recommendation was withdrawn from the Board agenda on May 6, 2003 in order to further evaluate the program requirements and scope of work. It has not been brought back to the Board.

I am sensitive to concerns that continue to be raised over the fact that this program has not been competitively bid, and the absence of formal contracts with the current vendors. The issuance of an RFP would provide the County with a secure contract(s), with fee guarantees for the term of the contract, as well as service/performance guarantees from the vendors. This is not to say that we do not currently have plan documents with the vendors which spell out the administrative and legal components of the programs. We recognize the value of competition and the benefits it can yield. However, it is also very important to weigh the value of continuity and the long-term relationship our employees enjoy with current providers. Though we have not solicited bids for this program, the County has been diligent in reviewing the quality of our investment choices and the competitiveness of fees in the marketplace.

At my request, staff has recently completed an analysis of the current situation regarding the County's deferred compensation program. Components of the analysis included an employee satisfaction survey conducted by our benefits consultant, Deloitte, discussion with our bargaining unit representatives to determine their perspective on this matter, and a survey of other large public employers to compare our program and process to that of others.

The employee survey was administered in January, 2004 in order to ascertain employee satisfaction with the incumbent vendors. Seven thousand (7000) surveys were mailed to a stratified random sample of participating employees. One thousand twelve (1012) responses were received, providing a statistically valid, reliable data set from which Deloitte was able to draw meaningful conclusions about the total population. Significant components of the survey results include:

- Nearly 43% of NRS participants, and 33% of ICMA participants have been enrolled in the program for 10 years or more
- Most participants indicated they are enrolled in either 1-2 funds, or 3-5 funds
- Overall satisfaction ratings were high for both plans
- Employees were generally satisfied with the number of investment options currently offered
- ICMA participants gave a slightly higher satisfaction rating (.81) than NRS participants (.69) when asked about the selection of investment funds
- Investment fund performance received the lowest satisfaction ratings among the "investment fund" questions. Given the performance of the overall market in the past few years, this is not surprising
- Ratings were very high for both plans regarding the timeliness and accuracy of quarterly fund statements

Staff met with bargaining unit representatives on December 15, 2003. An open discussion was held regarding the current vendors and whether or not they felt their membership would like to see the County go out to bid for the program. The group seemed to be split on this question. Several unions favored going out to bid in hopes that vendors would provide more favorable fees, more fund choices and better service to their members. Many unions indicated that they were satisfied with the current vendors and did not want to see the relationships disrupted. There was no strong indication that any of the bargaining units were receiving complaints from their members regarding the existing vendors.

At our request, Deloitte contacted ten large public employer groups to determine how their 457 programs compared to that of Miami-Dade County. The survey (Attachment A) provided several interesting facts:

- Miami-Dade County's employee participation (47% of eligible employees) compares favorably to those surveyed
- The number of investment funds offered is larger than most other employers
- The number of full service vendors we offer is in line with most other employers
- Most employers issue a RFP to select their vendor (It is noted that most RFPs resulted in no change to providers offered, except through consolidation.)
- Most contracts are for a 3-5 year period, with varying options to renew
- Our employees pay \$0 annual participant fees (except 5th tier and brokerage window participants) For other employers fees vary from \$0 to a percentage fee based on asset value or flat dollar per participant
- Our asset based charges compare favorably with those surveyed

The inquiries have resulted in mixed findings about whether or not it is appropriate to conduct a competitive bid for these services. A key consideration must be the impact on County employees. Since there is no County money involved, the results of a solicitation would primarily impact the employees. Generally, the following arguments could be raised by those who would support issuing an RFP:

- Reduction in plan administration fees/costs
- More/better investment choices
- Improved fund performance
- Improved customer service

It should be stressed that these are possible outcomes, but the County's current programs rank high in three of the four areas. As previously noted, employees did not rate their satisfaction with fund performance as high as other areas. However, this is likely indicative of overall market performance, and not necessarily reflective of the incumbent vendors.

Similarly, the following arguments could be raised as to why the County should continue to maintain the existing relationships:

- Our employees currently pay no plan administration fees
- Miami-Dade County employees have more investment choices than most other employer groups
- Current programs ranked high in customer service in the employee survey
- Potential disruption to employees of investment choices
- Adverse impact on employee morale if plan changes occur

Again, there is no reason to believe that a competitive process would have an adverse impact on the above noted arguments for maintaining our current providers. As you can see, there are compelling arguments both for maintaining the existing arrangement and formalizing the relationship with the current providers as well as competitively bidding the service. Ultimately, this is a policy consideration for the Board to make. Staff is prepared to respond to any questions you may have.


Assistant County Manager

Miami-Dade County
Survey of Governmental 457 Deferred Compensation Plans
 February 2004

Governmental Unit	Total Eligible Employees	Participating Employees (1)	Participation Percentage	Assets Under Management (2)	Number of Investment Funds				Number of Full-Service Vendors	Current Vendor				Satisfied with current vendor(s)?	How are full-service vendors selected?	Contract with current vendor(s)?	Term of Contract	Last Vendor Evaluation	What was the outcome of your last vendor evaluation?
					Bond	Balanced	US Equity	Non-US Equity		Vendor 1	Vendor 2	Vendor 3	Vendor 4						
Miami-Dade County	36,000	14,000	47%	\$691 Million	15	11	70	15	2	Nationwide Retirement Solutions	ICMA Retirement Corporation	N/A	N/A	Yes	Direct Contracting	No	N/A	2001	Stayed with current vendor but realized a reduction in fees/improvement in services
Hillsborough County, FL	5,386	4,685	87%	\$80 Million	12	7	55	11	3	Nationwide	Hartford	ICMA	N/A	Yes	RFP	Yes	Unlimited	Oct-03	No change
Shelby County, TN	6,500	3,000	46%	\$67 Million	4	1	25	3	1	Nationwide	N/A	N/A	N/A	Yes	RFP	Yes	3 yrs	May-02	Stayed with current vendor but realized a reduction in fees/improvement in services
State of Iowa	22,509 as of July 2003	10,596 as of July 2003	46%	\$313 Million	7	10	52	13	4	AIG VALIC	Equitable Life of the US (AAX)	Hartford Life	ING	Yes	RFP	Yes	5 yrs	2000	Consolidated the number of vendors
State of Minnesota	220,000	65,000	30%	\$2.2 Billion	2	2	5	2	1 Recordkeeper	Great West Retirement Services	N/A	N/A	N/A	Yes	RFP	Yes	5 yrs	Jul-03	Stayed with current vendor but realized a reduction in fees/improvement in services
State of Wisconsin	119,624	40,393	34%	\$1.0 Billion	3	1	9	2	Recordkeeper, 15 funds + stable value, FIDC savings account and a self-directed account	Nationwide Retirement Solutions (recordkeeper)	15 funds from various families (Vanguard, Fidelity, etc.), Stable-value fund at Gailand, FIDC option at Met Bank, self-directed option through Charles Schwab (Vanguard)	Yes, recordkeeper and largest investment funds (Fidelity, Vanguard)	Yes (recordkeeper)	5 yrs with 3 1-yr extensions	RFP (recordkeeper); Direct Contracting (investment funds)	Yes (recordkeeper)	Annual recordkeeping and investment fund vendor reviews	Stayed with current vendor but realized a reduction in fees/improvement in services (recordkeeper)	
Los Angeles County, CA	89,000	38,000	65%	\$2.8 Billion	1	5	4	2	1 Recordkeeper (no full-service vendors)	Great West Retirement Services	N/A	N/A	N/A	Yes	RFP (recordkeeper)	Yes (recordkeeper)	Contract established 7/1/87 for a term of 5 yrs. It was then extended for an additional 3 yrs until 6/20/05.	Consultants assist the Plan Administrative Committee in quarterly reports on investment fund managers and administrative services provider	
State of Connecticut	70,000	29,000	41%	\$883 Million	4	7	27	6	3	The Hartford	ING Financial Advisors, LLC	Phoenix Investment Partners	N/A	Yes	RFP	Yes	3 yrs	1998	Stayed with current vendor but realized a reduction in fees/improvement in services. Consolidated the number of vendors
State of Illinois*	120,000	54,000	45%	\$2.0 Billion	2	1	6	1	1	T. Rowe Price	Vanguard	Fidelity	Wells Fargo	Yes (T. Rowe Price)	RFP	Yes	3 yrs with 7 one-year extensions	Currently in process. Previous evaluation was 2 years ago	Retained recordkeeper
State of North Dakota**	18,000	6,000	33%	\$70 Million	5	2	15	2	Not provided	VALIC runs the Companion Plan	12 vendors	Yes (Companion Plan) but admin fee is high	Yes	RFP (Companion Plan), 50 member minimum	Yes	6 yrs (Companion Plan), no term limits	Survey of participants 2 yrs ago for each provider. In the RFP process for the Companion Plan.	Did not change vendors	
State of Florida***	200,000	66,000	33%	\$1.5 Billion	7	6	46	5	6	AIG VALIC	Great-West	ING	Nationwide	Yes	RFP	Yes	5 yrs	1/1/2003	Changed and consolidated vendors; stayed with some of the current vendors but realized a reduction in fees/improvement in services
City of Memphis, TN	7,000	5,700	81%	\$124 Million	12	0	37	6	1	Nationwide Retirement Solutions	N/A	N/A	N/A	Yes	RFP	Yes	Open ended	Currently in process	Negotiated with current vendor and received a reduction in fees

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Miami-Dade County
Survey of Governmental 457 Deferred Compensation Plans
February 2004

Governmental Unit	Asset-Based Charge (3)				Annual Per Participant Fee				Per Participant Cost Paid By Participant Or Employer?	Rate of Return on Prior Income or State Value Fund				Fees or Restrictions on Withdrawals			
	Vendor 1	Vendor 2	Vendor 3	Vendor 4	Vendor 1	Vendor 2	Vendor 3	Vendor 4		Vendor 1	Vendor 2	Vendor 3	Vendor 4	Vendor 1	Vendor 2	Vendor 3	Vendor 4
Miami-Dade County	0.25%	None	N/A	N/A	\$15 (NRS 5th Tier Only)	None	N/A	N/A	Participant	4.90%	3.80%	N/A	N/A	There will be a fee upon termination from Nationwide Retirement Solutions	No	N/A	N/A
Hillsborough County, FL	None	None	None	N/A	None	None	None	N/A	N/A	4.60%	4.15%	4.35%	N/A	No			N/A
Shelby County, TN	No charge on basic fund offerings 35 bps on all other funds****	N/A	N/A	N/A	\$35 transaction cost \$50 per year for brokerage window (Harris Direct)	N/A	N/A	N/A	Cost for transactions and brokerage window paid by participant	4.42% (Oct02 - Sept03)	N/A	N/A	N/A	Yes, 20% transfer per year Effective 1/26/04, securities will be held in separate accounts (in trust for participant) and there will be no restrictions on withdrawals	N/A	N/A	N/A
State of Iowa	0.48	45/70	0.5	0.3	None	None	None	None	N/A	4.25%	3.50%	4.15%	4.45%	Yes, 20% annual withdrawal	No	No	No
State of Minnesota	25% on 1st \$90,000	N/A	N/A	N/A	25% on 1st \$90,000	N/A	N/A	N/A	Participant	4.85%	N/A	N/A	N/A	Equity wash restrictions	N/A	N/A	N/A
State of Wisconsin	None				Fee structure based on participant's balance <\$5,000: \$0.50/month; \$5,001-\$25,000: \$1.50/month; \$25,001-\$50,000: \$3.00/month; \$50,001-\$100,000: \$5.00/month; \$100,001-\$150,000: \$8.33/month; \$150,000+: 10.00/month				Participant	5.11% (average) as of 12/03				On average, there is a limit to the number of trades made within 90 days. Usually defer to vendors regarding fees/restrictions on withdrawals			
Los Angeles County, CA	None	N/A	N/A	N/A	\$48.45	N/A	N/A	N/A	Participant	4.42% (managed account)	N/A	N/A	N/A	No	N/A	N/A	N/A
State of Connecticut	70% to 1.35%	82% to 1.01%	44% to 1.15%	N/A	None	None	None	N/A	N/A	4.15%	4.50%	Not offered	N/A	In certain circumstances, there will be a market-value adjustment		N/A	N/A
State of Illinois*	None, flat fee	N/A			None	N/A			N/A	4.50%	N/A			Equity wash provision	N/A		
State of North Dakota**	Not provided	Varies			90% Admin + Fund Fees	Not provided			Fees come out of employee accounts	4.92%	Not provided			No, only in the case of a total plan withdrawal. Then a five year drawdown.	Not provided		
State of Florida***	None	None	None	None	0.35% not to exceed \$105/yr	None	0.35% not to exceed \$105/yr	<\$5k: \$0/mo, <\$10k: \$4/mo, <\$25k: \$5/mo, >=\$25k: \$6/mo	Participant	4.25% (4th qtr '03)	4.00% (4th qtr '03)	4.20% (4th qtr '03)	4.12% (4th qtr '03)	No	No	No	No
City of Memphis, TN	65 bps	N/A	N/A	N/A	None	N/A	N/A	N/A	N/A	4.17%	N/A	N/A	N/A	2% restriction	N/A	N/A	N/A